

**DOMINANT LOGIC AND KNOWLEDGE CREATION
IN HONG KONG'S MANUFACTURING INDUSTRY**

by

CHIN KONG HONG

MBA PROJECT REPORT

Presented to

The Graduate School

In Partial Fulfilment

of the Requirements for the Degree of

MASTER OF BUSINESS ADMINISTRATION

TWO-YEAR MBA PROGRAMME

THE CHINESE UNIVERSITY OF HONG KONG

May 2002

APPROVAL

Name: Chin Kong Hong

Degree: Master of Business Administration

Title of Project: Dominant Logic and Knowledge Creation
in Hong Kong's Manufacturing Industry

Name of Supervisor: Professor David Ahlstrom

Signature of Supervisor: David Ahlstrom

Date Approved: 12 May 2002



Abstract

This study is based on a fusion of the frameworks proposed by Von Krogh and Grand (2000) and Nonaka and Takeuchi (1995), that can potentially offer insight on the impact of the dominant logic of the firm on the organizational knowledge acquisition and consequently on its knowledge creation ability.

This study has attempted to test this framework by looking at Hong Kong's manufacturing industry, which followed a different path of restructuring by relocation, instead of upgrading as followed by other NIEs.

The findings from this study suggests that:

Firstly, the framework may be able to provide a further explanation for this path taken: the dominant logic that prevailed in the industry focused on the acquisition of explicit knowledge, whilst tacit knowledge appears to have been hampered in some ways, resulting in a lack of capability for knowledge creation. In turn, this deficiency appears to have forced the firms to take to an alternative strategy.

Secondly, the framework has some predictive ability on the likelihood of companies to be successful in a knowledge-based economy, although further studies – such as a study of firms who did not follow the relocation strategy – may help to strengthen it.

CONTENTS

| | | |
|-----------|--|----------------|
| 1. | Introduction | 1-13 |
| 1.1 | <i>Defining a “Knowledge-based Economy”</i> | 4 |
| 1.2 | <i>The Theory of Knowledge Creation</i> | 8 |
| 1.3 | <i>Dominant General Management Logic</i> | 11 |
| | <i>– Organizational Knowledge Gatekeeper</i> | |
| 2. | The Study - Hong Kong’s Manufacturing Industry and the Evolvement of the Dominant Logic | 14 – 21 |
| 2.1 | <i>Historical Events</i> | 15 |
| 2.2 | <i>The Impact of the British Colonial Government</i> | 19 |
| 2.3 | <i>The Immigrant Population and Reliance on the Collective Family</i> | 20 |
| 3. | Findings of the Study | 22-26 |
| 3.1 | <i>The Manufacturing Firms’ Ideological Values</i> | 22 |
| 3.2 | <i>The Manufacturing Firms’ Corpus of Knowledge</i> | 23 |
| 3.3 | <i>The Manufacturing Firms’ Images of Knowledge</i> | 24 |
| 3.4 | <i>Impact of Manufacturing Firms’ Dominant Logic on Knowledge Creation</i> | 24 |
| 4. | Discussion and Limitations | 27-29 |
| 4.1 | <i>Discussion of the Findings</i> | 27 |
| 4.2 | <i>Limitations of the Study</i> | 29 |
| 5. | Conclusion | 30 |

Notes

Bibliography

Appendix 1 – Dominant Logic and Knowledge Creation

1. Introduction

Moving to a “knowledge-based economy” is not easy – many researchers and writers have difficulty even in defining the term. Nevertheless, the idea of knowledge being a source of competitive advantage of firms appears to be the common consensus. Many countries – the industrialized, the newly industrialized as well as the developing countries – are eager to seek this new source of competitive advantage and have begun to encourage their people and their businesses to shift attention to this idea. In a knowledge-based global economy, as more and more firms begin to shift the basis of competition to knowledge, another consensus appears to be that the ability to create knowledge is a key capability.

Hong Kong too has embarked on a shift to the new knowledge-based economy – a move announced by Hong Kong’s Chief Executive, Mr. Tung Chee Hwa, following the return of Hong Kong to its motherland, the People’s Republic of China. However, many have cast doubts whether the territory – long famous for its entrepreneurial ability based not on innovation, but rather copying from others – would have what it takes to make it as a knowledge-based economy.

This study offers to shed some light on the question: “Why have Hong Kong businesses tended to lack innovation – the ability for knowledge creation – and have tended to follow the “copying” model?”

In order to do so, this study uses a few theoretical ideas that have emerged from the field of Organizational Knowledge and Learning (1), and apply them to the manufacturing industry in Hong Kong.

The first idea is that tacit knowledge is important if not more important than explicit knowledge in the process of knowledge creation. Hence, according to the proponents of this framework: "organizational knowledge creation is a continuous and dynamic interaction between tacit and explicit knowledge.... The sharing of tacit knowledge among multiple individuals with different backgrounds, perspectives, and motivations becomes the critical step for organizational knowledge creation to take place" (Nonaka and Takeuchi (1995)).

The second idea is that the dominant general management logic of an organization is essentially the gatekeeper of knowledge creation within the organization i.e. "justification processes decide whether new knowledge is rejected, returned for further elaboration, or appropriated as justified true belief by the corporation" (Von Krogh and Grand (2000)).

Weaving the two ideas together, we can begin to define research questions in more detail, for example: What is the nature of the dominant logic in Hong Kong firms? What kind of new knowledge is allowed to be appropriated as organizational knowledge by the dominant logic of Hong Kong firms? How would the knowledge appropriated and as well as those rejected consequently affect the knowledge creation ability of Hong Kong firms?

In this study, a pilot attempt is made to ask the above questions by focusing only on firms in the manufacturing industry. The purpose is to find out whether the questions may yield meaningful insights for further theorizing. Many researchers agree that the manufacturing industry in Hong Kong had one critical difference from the other East Asian newly industrialized economies (NIEs) – its distinctive path of industrial restructuring since the 1980s by relocation rather than upgrading or investing in R&D. This clearly suggests that there is a set of unique dominant logic operating in this industry. If the dominant logic of these firms can be understood i.e. in the way they impact on the kinds of new knowledge that is allowed or excluded, we can then use them as basis to study the wider population of business organizations in Hong Kong.

Since this dominant logic appears to have operated for most of the firms in the industry – most firms followed the relocation path – this indicates a historical overview of the industry, instead of a firm level review, may be the most efficient and comprehensive way to deduce the nature of the dominant logic. This historical overview is carried out based on the various works of other researchers.

It is hoped that by understanding the nature of the dominant logic and how they operate to affect knowledge creation in the Hong Kong context may help policy makers and businesses better address the fundamental challenges in shifting to, and competing in a “knowledge-based economy”.

1.1 Defining a “Knowledge-based Economy”

Moving to a “knowledge-based economy” is not easy, as many researchers and writers have difficulty in defining the term, let alone making progress at it. Stanford Professor of Economics and History, Paul A. David, noted in a recent presentation at the OECD Knowledge Management Seminar, (David, 2002):

“A variety of terms related to “the knowledge based economy” (KBE) came into circulation in business, government and academic publications during the 1990’s, many of them deriving from perceptions that the landscape of economic activities was being transformed by *advances in information technologies culminating in the deployment of computer-mediated electronic communications networks, most noticeable in the Internet’s explosive growth*. Much promotional enthusiasm connected with developments in the ICT-producing branches of the economy surrounded the rise of academic and governmental interest in grasping the nature and future of the “information society” (Mansell and Steinmueller, 2000). Indeed, during the latter part of the 1990s this fixation upon electronic information-equipment and information-goods was reflected in the proliferation of economists’ efforts to brand the putatively newest epoch of development – alternatively, as “the e-economy” (Cohen and Zyman), the “digital economy” (Brynjolfsson and Kahin), the “weight-less economy” (Quah), “intellectual capitalism” (Grandstrand) or, more cautiously, just “the Next Economy” (DeLong). The aura of “hype” that accompanied this outburst of creative labeling now has evaporated, another casualty of the ending of the long bull market in stocks, and the sudden

collapse of the “dot-com” bubble.” What has remained largely intact, however, is the longer-standing set of shared perceptions about the existence and character of transformations in the structure of economic life.” (*Italics added.*)

Elsewhere, he adds (in, David and Foray, 2002):

“Knowledge has been at the heart of economic growth and the gradual rise in levels of social well-being since time immemorial. The ability to invent and innovate, that is to create new knowledge and new ideas that are then embodied in products, processes and organizations, has always served to fuel development. And there have always been organizations and institutions capable of creating and disseminating knowledge: from the medieval guilds through to the large business corporations of the early twentieth century, from the Cistercian abbeys to the royal academies of science that began to emerge in the seventeenth century. “Knowledge-based economy”, however, is a recently coined term. As such, its use is meant to signify a change from the economies of earlier periods, more a “sea-change” than a sharp discontinuity. This transformation can be analyzed at a number of different levels” – which he categorizes into:

- The acceleration of knowledge production;
- The rise of intangible capital at macroeconomic level;
- Innovation is becoming the dominant activity, its sources ever-more varied; and
- The revolution in instruments of knowledge.

Perhaps Peter Drucker, the famed management guru, put it most succinctly when he wrote about the “knowledge society” in his 1993 book 'Post-Capitalist Society':

“The industries that have moved into the center of the economy in the last forty years have as their business the production and distribution of knowledge and information, rather than production and distribution of things.... We are entering the “knowledge society” in which the basic economic resource is no longer capital or natural resources, or labor, but is and will be knowledge and where knowledge workers will play a central role.”

Despite the difficulty in defining the “knowledge-based economy”, the idea of knowledge being a source of competitive advantage of firms appears to be the common consensus. Many countries – the industrialized (e.g. USA, Great Britain, Germany), the newly industrialized (Singapore, Malaysia) as well as the developing countries – are all eager to seek this new source of competitive advantage – have begun to encourage their people and their businesses to shift attention to this idea. In a knowledge-based global economy, as firms begin to shift the basis to knowledge, another consensus appears to be that then ability to create knowledge is a key capability. In addition, the notion of a knowledge-based economy is also putting greater attention on the knowledge worker, because knowledge resides in the individual and is created in their social interaction with customers, suppliers and co-workers.

Hong Kong too has embarked on a shift to the new knowledge-based economy. This was a move announced by Hong Kong’s Chief Executive, Mr. Tung Chee Hwa,

following the return of Hong Kong to its motherland, the People's Republic of China. This announcement and others that followed has been seen as something of a breakaway from the positive non-intervention policy of the British colonial government. Recently, owing to China's membership of the World Trade Organization, as well the decline in cost of doing business elsewhere in Asia, question marks have been raised over Hong Kong's position as gateway to China and also its long term competitiveness. The call for a shift towards a knowledge-based economy seems timely indeed for Hong Kong. However, many local as well as foreign businessmen have cast doubts whether the territory – long famous for its entrepreneurial ability based not on its own innovations, but rather on the ability of its many businesses to copy from others – would have what it takes to make it as a knowledge-based economy. Some even report that, R&D in Hong Kong stands for “replication and duplication”, not “research and development” (McKinsey 2001).

Nevertheless, given the direction taken by other countries and also Hong Kong's own problems, the most important question is probably not whether Hong Kong should be a knowledge-based economy, but rather how can it become one. Hence, to begin with, an understanding of how knowledge creation comes about is necessary.

1.2 The Theory of Knowledge Creation

Along with the growing interest in the knowledge-based economy, which as mentioned earlier coincided with the internet boom, many businesses have begun to take steps to position themselves as knowledge organizations. Hence, it is not surprising that vendors of information technology are pushing the latest knowledge management software, whilst knowledge management has become another major selling program for management consultant.

Most academic researchers however warn against the hype – noting that knowledge cannot be equated with information. However, the contribution from scholars themselves is varied, reflecting multidisciplinary approaches that draw upon the theoretical insights from diverse management disciplines ranging from management information systems, operations management, organizational behavior and strategic management. One writer notes that at least five major strands of literature on knowledge creation management can be discerned, although there has been something of a consensus that much of the organizational challenge with regards to managing knowledge has to do with tacit knowledge rather than explicit knowledge (Wong 2000). With tacit knowledge as its central theme, Nonaka and Takeuchi (1995) developed the theory of knowledge creation. According to the two writers: “human knowledge is created and expanded through social interaction between tacit knowledge and explicit knowledge”. However, as businesses are concerned with the management of organizational knowledge rather than individual knowledge, they argue that:

- The organization cannot create knowledge on its own without the initiative of the individual and the interaction that takes place within the group.
- The sharing of tacit knowledge among multiple individuals with different backgrounds, perspectives, and motivations becomes the critical step for organizational knowledge creation to take place.
- Organizational knowledge creation is a continuous and dynamic interaction between tacit and explicit knowledge.
- The role of the organization in the organizational knowledge-creation process is to provide the proper context for facilitating group activities as well as the creation and accumulation of knowledge at the individual level.

The theory of knowledge creation was further elaborated in von Krogh, Ichijo and Nonaka (2000), stressing the importance of care and mindfulness within the corporate context:

- The fragility of knowledge creation means that it must be carefully supported by a number of activities that enable it to happen in spite of the obstacles.
- The concept of care matters most in an organization when those in charge provide a context in which knowledge is created and shared freely.
- The whole process of knowledge creation depends on sensitive and aware managers who encourage a social setting in which knowledge continues to grow.

They warn that in the absence of such an environment, "individuals often decide to stop contributing new ideas". With regards to the various knowledge management

practices, they note that: “knowledge management as it is practiced in most firms represents a constricting paradigm rather than a transformative one.”

Therefore, from an organizational context, it can be argued that new organizational knowledge can only be said to have been created when individual knowledge becomes diffused, adopted and embedded as new codes and routines that guide the actions of a significant number of organizational members (Argyris and Schon 1996).

The question remains though as to how individual knowledge becomes accepted as organizational knowledge. Von Krogh and Grand (2000) offer the idea that the dominant general management logic of an organization is essentially the gatekeeper on knowledge creation within the organization i.e. “justification processes decide whether new knowledge is rejected, returned for further elaboration, or appropriated as justified true belief by the corporation”.

1.3 Dominant General Management Logic

– Organizational Knowledge Gatekeeper

Prahalad and Bettis (1986) introduced the concept “dominant general management logic” in arguing that strategic decisions depended on the cognitive orientation of the decision makers.

In attempting to complete the understanding of the theory of knowledge creation, Georg von Krogh and Simon Grand (2000) agree with Nonaka and Takeuchi (1995) in that corporate knowledge can be referred to as justified true belief. As mentioned above, they further adopted the concept “dominant logic” in their attempt to shed light on the processes of justification, which illustrate how knowledge becomes relevant for a broader range of people. Their basic argument (which is depicted in Appendix 1) is quoted at length as follows:

Justification processes decide whether new knowledge is rejected, returned for further elaboration or rather appropriated as justified true belief by the corporation. Justification processes are essentially influenced by the dominant general management logic, which consists of:

The Organization’s Corpus of Knowledge At any point in time, one can determine (more or less clearly) some dominant strategic orientation. It integrates the currently accepted, reproduced and shared ideas of existing solutions, open problems, relevant frames and implicit theories which structure and dominate arguments and discussions, representing the basic

understanding of all important organizational issues. This corresponds with what we understand by paradigms (Kuhn, 1962), including the explicit contents of what is known by a corporation and can be partially explained by the people involved. In the corporate context, this corpus of knowledge includes:

- The delineation of business boundaries (what is our business about?);
- The pre-dominant business model (how will we develop? how do we create returns?);
- Implicit theories about the key success factors in the business (technological progress, product innovation, procedural efficiency?);
- referential success stories which serve as benchmarks (reference firms? why are they successful?).

Together, these different arguments, implicit models and underlying narratives form the patterns and arguments dominating most managerial speaking and acting.

The Organization's Images of Knowledge The corpus of related relevant knowledge is related to the images of knowledge that specify the appropriate argumentative patterns which rationalize, justify and legitimize theoretical contributions and strategic initiatives. Images of knowledge range from logical deduction ("it is reasonable to do it like this") to explanations in terms of tradition ("we have always done it like that"), authority ("top management or the specialists decide"), analogies ("it is just like that case we had ...") as well

as novelty (“we really should try something new”). In the corporate context, these images of knowledge include processes and arguments that are accepted as demonstrating the soundness and cogency of an argument, i.e.:

- Do managers have to explain their strategies in terms of financial return, or rather of technological trends?
- Are the customers key, or does the strategy focus on the shareholders?
- Should discussions dwell upon past success, or upon future returns?

The Organization’s Ideological Values Finally, these different knowledge dimensions are evaluated on the basis of the overall values of the company. They express the value system of the organization and its social and institutional context, determining the basic business philosophy as well as the vision of the organization. With respect to the images of knowledge, the ideological values will decide to what extent arguments and managerial discourses are relevant at all, and what the basic reference points of the organization should be (success, vision, or rather ethics and culture).

In line with proposition by Von Krogh and Grand (2000) to combine the concept of dominant logic with the theory of knowledge creation, the combined framework can potentially offer interesting insight on the impact of the dominant logic of the firm on the organizational knowledge acquisition and consequently on its knowledge creation ability. As mentioned in the introduction, this study will apply the framework on Hong Kong’s manufacturing industry.

2. The Study - Hong Kong's Manufacturing Industry and the Evolvement of the Dominant Logic

In this section, an historical overview of Hong Kong's manufacturing industry is carried out – based on the various works of other researchers – to deduce the nature of the dominant logic that appeared to have operated in most of the firms in the industry, especially as seen in its restructuring.

Chiu And Wong (2000) who studied the restructuring the manufacturing industry, noted “its distinctive path of industrial restructuring (since the 1980s) by relocation rather than upgrading”. They note in reviewing the previous studies:

UNCTAD (1996) compares the four NIEs on their export patterns over the three decades from 1963 to 1990, only to find Hong Kong to be losing its market share in almost half of the highly dynamic products in which it had earlier built a strong market presence. Chow and Kellman (1993) also offer a similar assessment: while all the four NIEs have successfully upgraded their exports from labor-intensive and resource-base products to more technology-intensive ones, Hong Kong nonetheless have the least structural transformation of commodity composition of exports over the period from mid-60s to early 90s. With the other three NIEs having dramatically transformed their industrial bases in one way or another (Chiu 1994; Ernst and O'Conner 1992; Hobday 1995; Mody 1990), it is puzzling that Hong Kong have got stuck to labor-intensive manufacturing for three decades (Chiu, Ho and Lui 1997).

Indeed, as the following historical overview(2) shows, various events and the influence of both the British colonial government and its immigrant population, have lent a distinct quality to Hong Kong, as well as the industry.

2.1 *Historical Events*

Following the end of the first Opium War in 1841, the Treaty of Nanking ceded the territory to the British in perpetuity. Following additional conflicts with the Chinese in 1860 Britain gained Kowloon and Stonecutters Island. In 1898, the British also gained a 99-year lease on the New Territories, which they felt essential to protect their interests on Hong Kong Island. Hence, Hong Kong became a colony and trading port (entrepot) for the British Empire.

Prior to WWII, Hong Kong began a gradual shift away from trade to manufacturing. This move was hastened by the civil war in China during the 1920s and by the Japanese invasion in the 1930s, when Chinese capitalists fled to the safer confines of the colony.

In 1937, the Sino-Japanese war broke out after Japan seized Manchuria in 1932. Throughout the late thirties, as Japan advanced into China, hundreds of thousands of Chinese took refuge in Hong Kong. It was estimated that some 100,000 refugees entered in 1937, 500,000 in 1938 and 150,000 in 1939 - bringing Hong Kong's population at the outbreak of World War II to an estimated 1.6 million. At the height of the influx, about 500,000 people were estimated sleeping in the streets. In 1941, as World War II broke out Japanese aircraft bombed Kowloon and Japanese troops

forced the British to surrender Hong Kong and the social and economic life of Hong Kong was disrupted. Japan's surrender in 1945, saw Britain reclaiming the territory and Hong Kong was once again a major trading center. In 1949, when the Nationalist-Communist Civil War in China was won by the Communists, hundreds of thousands of people again fled to Hong Kong.

In 1950, the US imposed of an embargo on all the goods of Chinese origin and the United Nations' prohibition of the export of essential materials and strategic goods to China to penalize China for its support of North Korea during the Korean War. As a result, Hong Kong lost virtually all of its entrepot trade with China. The US embargo would last 21 years, to be lifted only in 1971 prior to President Nixon's visit to China. Following the US embargo on China, it was forced to begin industrial diversification. The late 1950's saw the increase in activity in light manufacturing such as plastics products, clothing and textiles electronics manufacturing, and ancillary services such as banking and insurance begin to grow. The colony was able take advantage of the constant influx from China of capital and manpower. At the same as well, both Japanese firms and US corporations tried to enhance their competitiveness by relocating the labor-intensive processes to Hong Kong and other Asian countries for cost reduction. Electronics production in Hong Kong began with the subcontracting of radio assembly for Japan in 1959 and then extended to the other standardized products, parts and components. In the meantime, Hong Kong became the principal Asian assembler of semiconductors for the US market, with the establishment of subsidiaries by semiconductor producers.

Hong Kong's existence was threatened again during the Cultural Revolution in the 1960s. Although the Chinese could have re-taken Hong Kong with ease, China was as reliant on Hong Kong as Hong Kong was on China.

Since the mid-1970s, the electronics industry has been facing structural problems such as rising wage and land costs, a low level of technology, weak supporting parts and components segments, and an over-reliance on the US market and on Japanese supply of critical components. Owing to the fragility of Hong Kong's political status and the British policy of keeping city-state colonies as entrepot and free trade center, the government was unwilling to subsidize R&D and industrial upgrading, and maintained a highly unregulated, flexible labor market. The manufacturers' need for cost reduction in labor and land was accommodated by China's Open Door Policy. Since 1978, the Chinese authorities decided to attract foreign direct investment, expecting that overseas Chinese would be interested in investing in the Qiaoxiang areas (areas from which overseas Chinese and their ancestors emigrated) (IIAS, 1997: 29). Four special economic zones (SEZs) were established, and the first was Shenzhen SEZ. Shenzhen SEZ became a cheap labor haven for Hong Kong-based manufacturers, including Western and Japanese firms. Nevertheless, there were some differences in the aim, form and scale of investment between Japanese, US and Hong Kong firms. Japanese firms generally aimed at market penetration in the long run. They were willing to transfer technology in exchange for licenses to sell in the China market. US firms were more varied; some aimed also at market penetration whereas many others aimed simply at cheap labor and land supply like what Hong Kong firms did. Whereas the US and Japanese firms tended to establish longer-term contracts and

invest on a larger scale, Hong Kong firms took advantage of the processing or assembling arrangement on a very short term basis.

Since the mid-1980s, the SEZ authorities started to put pressure on foreign investors to upgrade their investments from processing and assembling arrangements to joint ventures with Chinese partners or wholly foreign-owned subsidiaries (WFOs) when the foreign investors applied for a renewal of their investment contracts. To avoid the upgrading, many moved out of the SEZ to the Bao'an District of Shenzhen or further north to the other Pearl River Delta cities. Those who remained in Shenzhen had to comply with the new demands. During the same period, an increasing number of smaller US and Japanese firms have partnered with Hong Kong firms to establish joint ventures in SEZ (and in China as a whole). These smaller enterprises did not have the same political clout to get advantageous terms from the Chinese authorities as the brand name companies. Their Hong Kong partners could provide vital shortcuts around the often-laborious process of establishing connections in China (Goldstein, 1988). The local manufacturing capability of Shenzhen was weak with underdeveloped basic industries and a shortage of both skilled and semi-skilled workforce. The expanding service sector attracted local young people away from blue-collar work. Thus, manufacturers resorted to employing low-skilled, migrant workers. The local authorities were lax in enforcing labor regulations. The inflow of migrant labor, however, strained the already inadequate infrastructure. Hence, the authorities increasingly imposed various items of social infrastructure fees on manufacturers. Manufacturers found it difficult to estimate the production expenses and tended to skirt laws and regulations and to cut wages and welfare in order to

prepare for the "rainy days". This, in turn, reinforced the high turnover of (migrant) workers, which was unfavorable to local skill formation.

In 1984, Britain and China reached an agreement that Hong Kong would revert back to Chinese authority in 1997. With the impending China takeover of Hong Kong, the colonial government had no intent to steer the colony toward high-tech industrialization. Its approach was highly market-driven, encouraging the survival of the fittest.

2.2 *The Impact of the British Colonial Government*

Hong Kong's British colonial government's primary contribution to Hong Kong is the installation of legal codes and order. The Qing Dynasty did possess some legal codes, especially for criminal law. However, the British legal code emphasizes individual responsibility under the law as opposed to the traditional framework, the colonial government maintained a relatively laissez-faire attitude regarding its responsibility under the law as opposed to the traditional Chinese doctrine of mutual responsibility. Under this skeletal framework, the colonial government maintained a relatively laissez-faire attitude regarding its responsibility towards society.

The colonial government regarded any economic investment other than trade as politically risky, given the political turbulence in China (the establishment of the Communist rule in 1949 and the Cultural revolution in the 1960s). Furthermore, it had never wanted to promote industrial development since it was beyond the imperial plan and the control of the trading and financial interests.

2.3 *The Immigrant Population and Reliance on the Collective Family*

McEwen (1994) notes:

Immigrants comprised the bulk of entrepreneurship until the last decade when the number of local-born entrepreneurs increased (Sit & Wong, 1989). The wave of industrialists in 1949 from Shanghai and other Chinese cities helped to establish the manufacturing base for the future of Hong Kong. Coupled with the labor force composed of immigrants from Guangdong, it set the stage for Hong Kong's industrialization. The post-1949 immigrants brought little or no financial assets – particularly those from Guangdong. They would become the essential small and medium entrepreneurs of Hong Kong. They relied on the collective efforts of the family to make ends meet, using personal or family savings to create capital (Donnithorne, 1983: 299). Furthermore, the immigrants from Guangdong lagged behind in their educational background compared to those in professional or administrative occupations, selecting small-scale industry as a career because of its relatively easy entry (Sit & Wong, 1989: 97). Many of these immigrant entrepreneurs came from a peasant or artisan background, and carried the cultural capital of little education and hard work with them to Hong Kong (Sit & Wong, 1989: 99). These factors helped to create the entrepreneurial familism by which scholars describe Hong Kong society (Wong, 1991:21).

The gulf between the government and society created the atmosphere, which allowed these cultural factors to take hold. Lau's thesis of a "minimally integrated socio-political framework" recognizes the British reluctance to interfere into the everyday life of the colony. This diffidence creates a dual scenario: a reliance on the family for social welfare, while creating space in which the Chinese could operate their business with little interference.

Hong Kong has seen a proliferation of family businesses during the last forty years. This system of both small and large family firms has served as the backbone of Hong Kong's economy, functioning almost exclusively in the manufacturing sector until quite recently. This dependence on the family emanates from both historical and cultural reasons. The general social structure of imperial China emphasized the family as a landmark against economic adversity.

Silin discovered that xinyong (trust) "was the crucial factor in upholding the complex network of trading relations" (Silin, 1972). Wong Siu-lun found that guanxi (relationships) were used in order to get business orders (Wong, 1991). Business relations in Hong Kong have been established on a bed of cultural values, which involve close relationships.

In short we can see that socio-political volatility, lack of capital and lack of initial technology base and subsequent support from the government played important roles in the formation of the dominant logic of the firms in the industry.

3. Findings of the Study

Based on the foregoing overview, the following is an attempt to describe the dominant logic of the firms in the industry along the components outlined earlier:

3.1 *The Manufacturing Firms' Ideological Values*

Owing to the lack of capital, the family network becomes an important source of capital for doing business as well as a source of business. The need for establishing trust becomes an important for the firms.

Paradoxically perhaps, the importance placed on trust also points to the prevalence of distrust within society. Trust is valuable, since losing it – resulting in distrust – can lead to isolation from the family and business network and ultimately the ability to survive. Therefore, businesses that have managed to establish trust have great incentives not to cause the trust to be questioned.

A person or party who introduce discontinuities, which by definition are interruptions to the established patterns, can potentially cause the trust in the person or party to be questioned. Hence, heuristically, new ideas (and person(s)) that do not conform to the established understanding or way of doing business are taken with great suspicion and viewed as “risky”.

This ideological value perhaps help to explain why within the family and also the family business network, individuals and businesses alike are prone to follow the established ways and why they themselves are not willing to consider any actions that

can be perceived as great discontinuities, let alone introducing them into the family and the family business network. On the other hand, it also helps explain why incremental ideas are more readily accepted.

3.2 *The Manufacturing Firms' Corpus of Knowledge*

The manufacturing technology and labor skills that the businesses utilized from the beginning were not sophisticated. Because of this ease of entry, the critical challenge was to find buyers.

Hong Kong itself could not offer a large domestic market. Instead the most attractive buyers were from overseas, typically from the US and Europe, especially because of their large orders that ensured coverage of the companies' overheads. The manufacturing industry, owing to the fact that they do not have neither access to technology and the importance of making a return on borrowed capital, were willing to compete on price and hoping to make up enough on volume sales to cover fixed costs – which given their small scale was not difficult to achieve if they succeeded in obtaining the orders. Consequently, the overseas buyers have better bargaining power. This buyer-led strategy led at least one study to note that firms have early on developed a heavy commercial orientation in their organization (Chiu and Wong 2000).

This focus on the buyers meant that over time, sales and marketing strategies became important, and market knowledge became the corpus of knowledge within their dominant logic.

3.3 *The Manufacturing Firms' Images of Knowledge*

In the context of the manufacturing firms, the images of knowledge specify the argumentative patterns that rationalize and legitimize sales and marketing strategies. Hence, for example, argument would center on how the firm should achieve market share expansion, product differentiation and market diversification. In addition, these arguments would likely take account of actions from competitors as well purchasing trends in the market place.

3.4 *Impact of Manufacturing Firms' Dominant Logic on Knowledge Creation*

Having described the nature of the dominant logic in Hong Kong firms, the two remaining questions can now be addressed:

What kind of new knowledge is allowed to be appropriated as organizational knowledge by the dominant logic of the manufacturing firms?

As mentioned above, the pre-occupation with finding buyers has resulted in marketing-led strategies. The problem with this is that markets, by their nature, are only capable of transmitting codifiable information and hence explicit knowledge. It is unable to deal with tacit knowledge.

The focus on marketing is exacerbated by the family structure of these businesses. As mentioned earlier, the family structure and its emphasis of trust. Family members are unwilling to form and express their own tacit knowledge given that their ideas

risked being judged as not conforming to the established understanding or ways of doing business. On the other hand, incremental ideas are more readily available from external sources and they are more comfortable quoting these explicit knowledge.

Hence, we can see that the manufacturing firms have a tendency to allow only new explicit knowledge to be appropriated as organizational knowledge. Tacit knowledge appears to be generally not offered to or shared with other members within these organizations, based on the ideological values. In other words, the dominant logic of these firms appears to focus almost exclusively on explicit knowledge whilst hampering the acquisition of tacit knowledge.

How would the knowledge appropriated and as well as those rejected consequently affect the knowledge creation ability of the manufacturing firms?

The theory of knowledge creation claims that:

- The organization cannot create knowledge on its own without the initiative of the individual and the interaction that takes place within the group.
- The sharing of tacit knowledge among multiple individuals with different backgrounds, perspectives, and motivations becomes the critical step for organizational knowledge creation to take place.
- Organizational knowledge creation is a continuous and dynamic interaction between tacit and explicit knowledge

Given the propensity of the manufacturing firm to be able to appropriate only explicit knowledge to the detriment of tacit knowledge, the theory of knowledge creation would suggest that it would be problematic for organizational knowledge creation, and hence innovation, to take place in these firms. It also appears that firms that face this problem would have to seek alternative routes for their continued survival.

As noted earlier, the majority of the firms in manufacturing industry have indeed taken the path of restructuring by relocation instead of upgrading. In other words, they have sought a strategy of competing on cost instead of innovation.

Hence the facts from the manufacturing industry presented so far appear to provide support to the theoretical framework being tested in this study.

4. Discussion and Limitations

In this section, the implications of the findings from the study, as well as limitations of the study itself are discussed.

4.1 Discussion of the Findings

This study is an initial attempt to better understand the ability of Hong Kong organizations at knowledge creation, an area of study which is still relatively new which suggests that there may still be room for theorizing and refinement.

Nevertheless, in this preliminary study the findings based on the theoretical framework of dominant logic fused to the theory of knowledge creation, appear to be consistent with the historical facts of the industry. This suggests that the framework has predictive value, that is, the framework can be used to analyze the dominant logic of the firms in general in order to determine: what kind of new knowledge are more likely to be appropriated as knowledge for their knowledge and in what manner their ability for knowledge creation is hampered.

In addition, the historical study indicate that the dominant logic that prevailed for at least the majority of Hong Kong's manufacturing firms had hampered the appropriation of tacit knowledge, that hampered its ability to create new knowledge. This provides a further explanation to all the existing studies of why these firms had to undergo manufacturing by relocation without upgrading, in contrast with the manufacturing firms in the other NIEs. Further studies on the manufacturing firms

that did not follow the majority would provide useful contrast and would also help strengthen the predictive ability of the theoretical framework.

It remains to be seen whether with respect to the manufacturing industry the dominant logic of the Hong Kong firms has changed especially in light of recent changes in the business environment, and more importantly whether the current dominant logic is more conducive for appropriating tacit knowledge.

As noted at the beginning, Hong Kong is shifting to become a knowledge-based economy. It appears that the Hong Kong family business ideological values create constraints to the willingness of its members to form and express their own tacit knowledge. This can prove problematic to the move to a knowledge-based economy where generation and sharing of tacit knowledge is a fundamental capability. This would be of concern to policy makers especially whether the policies can have a positive impact on these ideological values. It would appear appropriate for further studies to focus on the service businesses, since these are contributing greater portions to the Hong Kong's GDP and thus suggesting that the success of these organizations is crucial to the overall economy. It would be important therefore to find out the dominant logic of these organizations and their conduciveness for appropriating and sharing tacit knowledge and to create organizational knowledge. It can help to find out the likelihood of success of these companies in creating a knowledge-based economy.

4.2 *Limitations of the Study*

This study uses secondary analysis derived from other researchers in reviewing for the historical dominant logic of the manufacturing firms. It may be better to use original data /information e.g. through the use of company archives or interview, although these too can be difficult owing to a lack of records kept or inaccurate re-collection, or in some cases interview for historical data is no longer possible. Nevertheless, in order to reduce errors of interpretation, this study has included studies from various sources.

5. Conclusion

The study of organizational knowledge learning and knowledge offers potentially useful insights on the ability of companies to create and utilize organizational knowledge to compete effectively in a knowledge-based economy.

Based on a fusion of the framework proposed by Von Krogh and Grand (2000) and Nonaka and Takeuchi (1995), it may be possible to understand the impact of the dominant logic of the firm on the organizational knowledge acquisition and consequently on its knowledge creation ability.

This study has attempted to test this framework by looking at Hong Kong's manufacturing industry, which followed a different path of restructuring by relocation, instead of upgrading as followed by other NIEs. The findings from this study suggests that the framework may be able to provide a further explanation for this path taken: the dominant logic that prevailed in the industry focused on the acquisition of explicit knowledge, whilst tacit knowledge appears to have been hampered in some ways, and resulting in a lack of capability for knowledge creation. In turn, this deficiency appears to have forced the firms to take to the alternative strategy of relocating to a lower cost base.

Finally, the findings suggest that the framework has some predictive ability on the likelihood of companies to be successful in a knowledge-based economy, although further studies – such as a study of firms who did not follow the relocation strategy – may help to strengthen it.

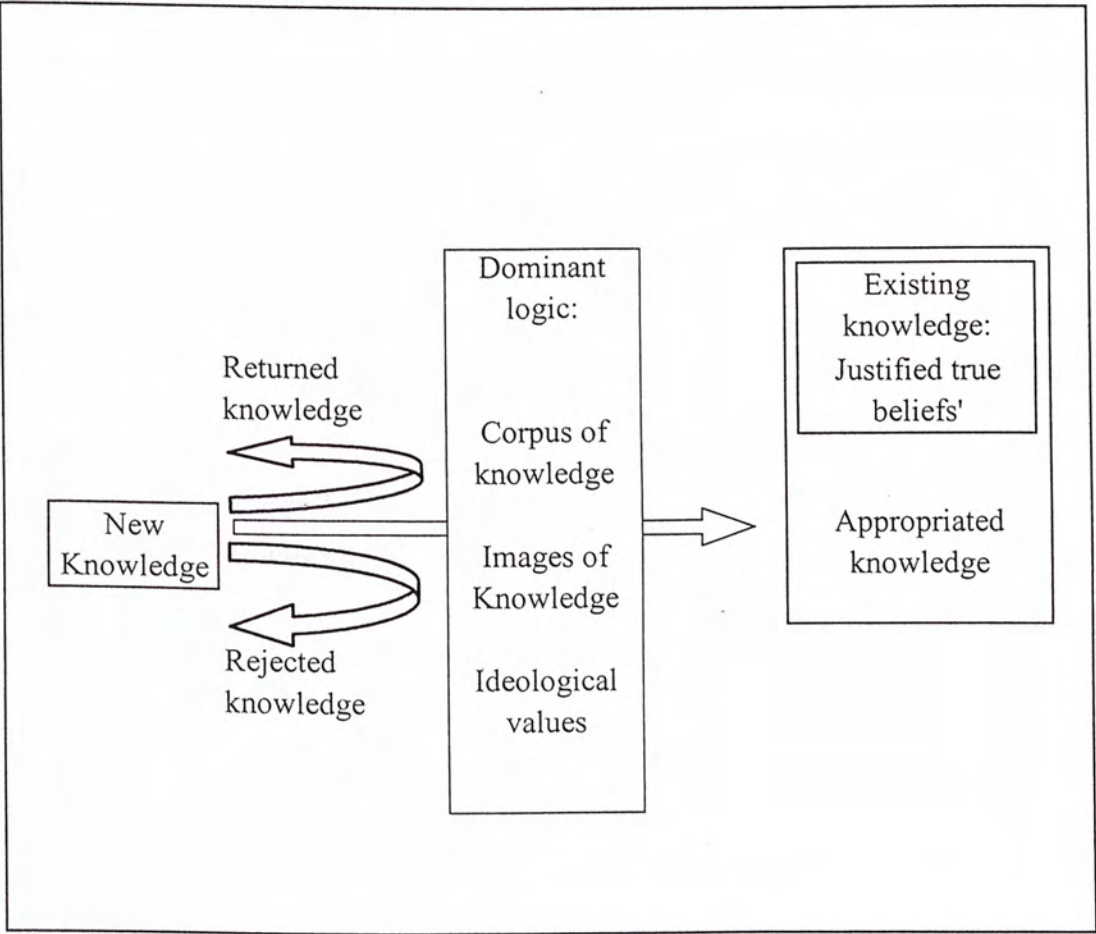
Notes

- (1) The term “Organizational Learning and Knowledge” follows that of a recent compendium, which consolidates the work to date in the said area (Dierkes, Antal, Child, and Nonaka, 2001). The handbook provides a comprehensive overview of the concept of Organizational Learning and related issues of knowledge in organizations. It explains its origins, current applications, and where it may be going. It provides a full account of varied disciplinary approaches, and discusses major issues in the field.
- (2) This section quotes extensively from various works such as Tsui-Auch (1999), McEwen (1994), Hobday (1995) and other historical accounts of Hong Kong by anonymous contributors.

Bibliography

- Argyris, Chris, & Schon, Donald A. 1996. *Organizational learning II: Theory, method, and practice*. New York: Addison-Wesley.
- Chiu, S.W.K. and Wong, K.C. 2000 'Growth without Catching Up: Organizational Dynamics and the Restructuring of Electronics Industry in Hong Kong' Research paper presented at the Social Science Research Council Workshop on Industrial Upgrading 2000.
- Chow, Peter C.Y. and Mitchell H. Kellman. 1993. *Trade -- the Engine of Growth in East Asia*. New York: Oxford University Press.
- David, Paul A. 2002. Public dimensions of the knowledge-driven economy A brief introduction to the OECD/CERI project. A Presentation to the OECD Knowledge Management Seminar 18-19 March, 2002, in Oxford
- David, Paul A. and Foray, Dominique. 2002. "An introduction to the economy of the knowledge society" Special Issue of the International Social Science Journal, no. 171, (February-March) 2002.
- Dierkes, Meinolf; Berthoin-Antal, Ariane; Child, John; Nonaka, Ikujiro (eds.), 2001. *Handbook of Organizational Learning and Knowledge*. New York: Oxford University Press
- Drucker, Peter F. 1993. *Post-Capitalist Society*. HarperBusiness.
- Hobday, M. (1995). *Innovation in East Asia: The Challenge to Japan*. Aldershot: Edward Elgar.
- Kuhn, Thomas S 1962 [1970] *The Structure of Scientific Revolutions*. University of Chicago Press.
- Mansell, Robin and Steinmueller, W. Edward. 2002. *Mobilizing the information society: strategies for growth and opportunity*, Oxford University Press.
- McEwen, Susan. 1994. Markets, modernization, and individualism in three Chinese societies. Ph. D. Thesis. Boston University.
- McKinsey, Kitty 2001. "Going the distance", *Far Eastern Economic Review* Mar 29, 2001.
- Nonaka, Ikujiro and Takeuchi, Hirotaka 1995. *The Knowledge-Creating Company: How Japanese Companies Create the Dynamics of Innovation*. Oxford University Press.
- Prahalad, C.K. and Bettis, Richard A. 1986. "The dominant logic: A new linkage between diversity and performance", *Strategic Management Journal*, vl.7, pp.485-501

- Tsui-Auch, Lai Si. 1999. Regional Production Relationship And Developmental Impacts: A Comparative Study Of Three Regional Networks
- UNCTAD. 1996. "Exports, Capital Formation and Growth", Pp. 107-38 in *Trade and Development Report 1996*.
- Von Krogh, Georg and Grand, Simon 2000. Justification in Knowledge Creation: Dominant Logic in Management Discourses. in von Krogh, Georg; Nonaka, Ikujiro; Nishiguchi, Toshihiro 2000. *Knowledge Creation : A Source of Value*. New York: St. Martin's Press.
- Von Krogh, Georg, Ichijo, Kazuo and Nonaka, Ikujiro. 2000. *Enabling Knowledge Creation : How to Unlock the Mystery of Tacit Knowledge and Release the Power of Innovation*. New York: Oxford University Press
- Wong, Poh-kam 2000. Knowledge creation management: Issues and challenges. *Asia Pacific Journal of Management* Volume 17, Issue 2, August 2000.



Source: Von Krogh and Grand (2000)

CUHK Libraries



003897696